

This record is a partial extract of the original cable. The full text of the original cable is not available.

2001HANOI00686 - UNCLASSIFIED

UNCLASSIFIED PTQ5866

PAGE 01 HANOI 00686 01 OF 03 231051Z
ACTION SSO-00

INFO LOG-00 NP-00 AGRE-00 AID-00 ANHR-00 EAP-00 EB-00
TEDE-00 SS-00 STR-00 TEST-00 TRSE-00 SAS-00 /000W
-----D62AD3 231051Z /38

FM AMEMBASSY HANOI
TO SECSTATE WASHDC PRIORITY 2341
INFO DEPTTREAS WASHDC PRIORITY
NSC WASHDC PRIORITY
USDOC WASHDC PRIORITY
USDA WASHDC PRIORITY
ASEAN COLLECTIVE
AMCONSUL HO CHI MINH CITY

UNCLAS SECTION 01 OF 03 HANOI 000686

SIPDIS

STATE FOR E, EB, EB/IFD/ODF, EB/IFD/OMA, EB/TPP, EAP/BCLTV
STATE PASS USAID/ANE AFERRERA AND DMCCCLUSKEY
STATE PASS USTR
TREASURY FOR OASIA
TREASURY PASS USED WORLD BANK, USED IMF
USDOC FOR 4431/MAC/IEP/OKSA/HPPHO
USDA FOR FAS/ITP/SCHIKH/HUYNH
PHNOM PENH FOR USAID LCHILES
MANILA PASS USED ADB

SENSITIVE

UNCLASSIFIED

PAGE 02 HANOI 00686 01 OF 03 231051Z
E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [VM](#) [FINREF](#) [SOE](#)

SUBJECT: VIETNAM COMPLETES PRIOR ACTIONS FOR IMF/WORLD BANK STRUCTURAL ADJUSTMENT PROGRAM

REF: HANOI 239 AND PREVIOUS

1. (SBU) SUMMARY: WORLD BANK AND IMF REPRESENTATIVES IN HANOI CONFIRM VIETNAM HAS SUBSTANTIALLY COMPLETED PRIOR ACTIONS/CONDITIONS NECESSARY TO PERMIT THE FUND'S PROPOSED POVERTY REDUCTION AND GROWTH FACILITY (PRDF) AND THE BANK'S POVERTY REDUCTION SUPPORT CREDIT (PRSC) FOR VIETNAM TO BE SUBMITTED TO RESPECTIVE BOARDS FOR APPROVAL. IF APPROVED, VIETNAM COULD DRAW AS MUCH AS USD 800 MILLION OVER THE NEXT THREE YEARS UNDER THESE PROGRAMS. WE UNDERSTAND THE IMF AND WORLD BANK BOARDS ARE TARGETING APRIL 6 AND MAY 3, RESPECTIVELY, TO CONSIDER THE PRDF AND THE PRSC. DONORS, AS WELL AS BUSINESS PEOPLE AND BANKERS, ARE THRILLED THE IMF AND WORLD BANK HAVE SUCCEEDED IN THEIR MARATHON NEGOTIATIONS ON A NEW STRUCTURAL PROGRAM.

2. (SBU) SUMMARY CONT'D: AS WE HAVE STRESSED IN REFTELS, EMBASSY FULLY SUPPORTS THESE MUCH-NEEDED REFORMS. WE THINK STRONG SUPPORT FOR THEM BY THE IMF AND WORLD BANK BOARDS WILL STRENGTHEN THE REFORM ELEMENT IN THE VIETNAM GOVERNMENT. MOREOVER, IF THE STRUCTURAL PROGRAM CAN BE PUT IN PLACE IN TANDEM WITH U.S.-VIETNAM BILATERAL TRADE AGREEMENT (BTA) RATIFICATION AND IMPLEMENTATION, WE COULD WITNESS A RESURGENCE IN ECONOMIC GROWTH IN THE YEARS AHEAD, SIMILAR TO WHAT VIETNAM EXPERIENCED IN THE EARLY TO MID-NINETIES. WE UNDERSTAND WASHINGTON AGENCIES ARE REVIEWING
UNCLASSIFIED

PAGE 03 HANOI 00686 01 OF 03 231051Z
THE APPLICABILITY OF THE 1983 GRAMM AMENDMENT TO THE PROPOSED PRGF WHICH MAY, DEPENDING ON INTERPRETATION, LIMIT THE ADMINISTRATION'S ABILITY TO ENDORSE THE PRGF AT THE IMF BOARD MEETING. WE URGE WASHINGTON AGENCIES TO TAKE WHATEVER STEPS ARE POSSIBLE TO VOTE IN FAVOR OF THE PRSC AND THE PRGF WITHOUT, HOWEVER, SEEKING A DELAY IN BOARD CONSIDERATION OF EITHER. FINALLY, IN ORDER TO AVOID FUTURE SIMILAR COMPLICATIONS, WE RECOMMEND THE ADMINISTRATION SEEK ELIMINATION OF THE GRAMM AMENDMENT AT THE EARLIEST POSSIBLE OPPORTUNITY. END SUMMARY

THE PROGRAM

3. (SBU) WHILE WE HAVE YET TO SEE THE DETAILS OF THE PROPOSED PRGF AND PRSC, WE HAVE MET OFTEN AND AT LENGTH WITH BOTH IMF AND WORLD BANK ECONOMISTS TO DISCUSS THE 'IN PRINCIPLE' AGREEMENTS. THE AGREEMENTS CALL FOR A MAJOR REFORM UNDERTAKING INCLUDING THE FOLLOWING BASIC ELEMENTS:

A) BANKING REFORM: RESTRUCTURING THE STATE-OWNED COMMERCIAL BANKS (SOCB'S) AND THE JOINT STOCK BANKS (JSB'S), WHILE ADDRESSING THE STOCK OF NON-PERFORMING LOANS AND IMPROVING INTERNAL PROCESSES FOR BETTER MANAGEMENT AND ACCOUNTABILITY. SOCB'S WILL BE RE-CAPITALIZED AND BALANCE SHEETS CLEANED OF BAD LOANS GRADUALLY AS THEY MEET PERFORMANCE TARGETS. CRITICALLY IMPORTANT, THERE WILL ALSO BE A PHASE-OUT OF POLICY LENDING BY SOCB'S. THE PROGRAM ALSO PLANS TO IMPROVE THE LEGAL, REGULATORY AND SUPERVISORY FRAMEWORK AND LEVEL THE PLAYING FIELD FOR BANKING SERVICES.

UNCLASSIFIED

PAGE 04 HANOI 00686 01 OF 03 231051Z
B) STATE-OWNED ENTERPRISE (SOE) REFORM: THE SOE REFORM PLAN CONTEMPLATES EQUITIZATION, DIVESTITURE AND LIQUIDATION OF 1800 SOE'S OVER THE NEXT THREE YEARS. THOSE SOE'S REMAINING GOVERNMENT-OWNED WILL BE SUBJECT TO DIAGNOSTIC AUDITS, RESTRUCTURING, AND REPORTING REQUIREMENTS. THE GOVERNMENT WILL ESTABLISH A FUND SOLELY FOR THE PURPOSE OF FINANCING SEVERANCE PAYMENTS TO SUPPORT WORKERS MADE REDUNDANT BY SOE CLOSINGS OR RESTRUCTURING.

C) TRADE REFORM: RELATES IN LARGE PART TO REMOVAL OF QUANTITATIVE RESTRICTIONS IN PHASES ON A MULTILATERAL BASIS, BY EARLY 2003 AT THE LATEST, FOR CEMENT, STEEL, GLASS, PAPER, VEGETABLE OIL, CERAMIC AND GRANITE TILES, AND FERTILIZER. THE PROGRAM WOULD ALSO REQUIRE THE GVN TO FOLLOW THROUGH WITH COMMITMENTS MADE IN AFTA AND THE U.S.-VIETNAM BTA.

THE PRGF AND THE PRSC WILL ALSO INCLUDE REQUIREMENTS RELATING TO PUBLIC EXPENDITURE AND PRIVATE SECTOR REFORM.

PRIOR ACTIONS COMPLETE

14. (SBU) OVER THE PAST SEVERAL WEEKS, EMBASSY OFFICERS AND USAID COUNTRY MANAGER HAVE MAINTAINED CLOSE COORDINATION WITH LOCAL IMF AND WORLD BANK REPRESENTATIVES AS THEY HAVE WORKED WITH THE GVN TO 'CLOSE' THE PRIOR ACTIONS/CONDITIONS TO THE PRGF AND PRSC TO PERMIT CONSIDERATION OF THIS IMPRESSIVE REFORM AGENDA TO TAKE PLACE AT IMF AND WORLD BANK HEADQUARTERS IN WASHINGTON. USAID, IN PARTICULAR, HAS SHOWN EXEMPLARY LEADERSHIP WITHIN THE DONOR COMMUNITY BY PROPOSING TO UNDERWRITE A DIAGNOSTIC AUDIT OF ONE OF VIETNAM'S FOUR STATE-OWNED COMMERCIAL BANKS USING INTERNATIONALLY RECOGNIZED AUDITING STANDARDS. AS OF MARCH 23, WE UNDERSTAND THE GVN HAS COMPLETED SUBSTANTIALLY ALL PRIOR ACTIONS/CONDITIONS. WE SAY SUBSTANTIALLY BECAUSE IMF AND WORLD BANK EXPERTS CONTINUE TO STUDY GVN SUBMISSIONS. STATE BANK OF VIETNAM GOVERNOR LE DUC THUY HAS SIGNED A LETTER TO THE IMF ACKNOWLEDGING VIETNAM'S LIST OF COMMITMENTS UNDER THE PROPOSED STRUCTURAL PROGRAM.

UNIQUE ALIGNMENT OF THE PLANETS

15. (SBU) IT IS EMBASSY'S VIEW THAT VIETNAM IS UNIQUELY
UNCLASSIFIED

PAGE 03 HANOI 00686 02 OF 03 231051Z
STAGED TO UNDERGO A DRAMATIC POTENTIAL REFORM EFFORT WHICH COULD TRANSFORM THE WAY THE COUNTRY DOES BUSINESS OVER THE NEXT DECADE. ESSENTIALLY THERE ARE TWO PARTS TO THIS REFORM EFFORT: ONE, THE FINANCIAL SECTOR AND SOE RESTRUCTURING; AND TWO, THE TRADE COMMITMENTS VIETNAM HAS AGREED TO, INCLUDING THOSE CONTAINED IN AFTA AND ONES IN THE YET-TO-BE RATIFIED U.S.-VIETNAM BILATERAL TRADE AGREEMENT (BTA). IN ESSENCE, THE BTA'S IMPLEMENTATION WILL FORCE VIETNAM TO RESTRUCTURE RADICALLY ITS TRADE REGIME. AT THE SAME TIME, AS A RESULT OF THE NORMAL TRADE RELATIONS STATUS IT WILL BRING TO VIETNAM'S GOODS IN THE U.S. MARKET, IT WILL PROVIDE A STIMULUS TO MAKE THE STRUCTURAL REFORMS WORK. WHILE THE IMF AND WORLD BANK FUNDING WILL HELP VIETNAM MEET ITS GROWTH NEEDS AS IT RESTRUCTURES, THE ACCESS TO THE U.S. MARKET WILL SERVE TO ATTRACT FURTHER MARGINAL INVESTMENT IN DOMESTIC PRODUCTION AND ATTRACT ADDITIONAL FOREIGN DIRECT CAPITAL. CONSEQUENTLY, WE THINK WASHINGTON AGENCIES AND OTHER DONORS SHOULD FULLY SUPPORT THE IMF AND WORLD BANK PROGRAMS. RARELY DO OPPORTUNITIES LIKE THIS PRESENT THEMSELVES.

GRAMM AMENDMENT

16. (SBU) EMBASSY WAS DISMAYED TO LEARN THIS WEEK OF THE GRAMM AMENDMENT, A STATUTE ENACTED DURING THE HEIGHT OF THE COLD WAR, WHICH IMPOSES A REQUIREMENT FOR THE ADMINISTRATION TO REPORT TO THE CONGRESS WELL IN ADVANCE WHEN IT PLANS TO VOTE FAVORABLY FOR AN IMF STRUCTURAL ADJUSTMENT CREDIT. WHILE WE DO NOT KNOW WHAT POSITION WASHINGTON AGENCIES PLAN TO TAKE ON THE IMF PORTION OF THE STRUCTURAL PROGRAM, WE WOULD HOPE THAT IF WASHINGTON AGENCIES ARE FAVORABLY

UNCLASSIFIED

PAGE 04 HANOI 00686 02 OF 03 231051Z
DISPOSED TO IT THEY COULD FIND A WAY TO INDICATE SUPPORT FOR
THE IMF PROGRAM. IF, HOWEVER, THE LEGAL INTERPRETATION
WOULD NOT ALLOW THIS, WE WOULD URGE QUIET ABSTENTION IN THIS
UNIQUE CIRCUMSTANCE. WE DO NOT COUNSEL A REQUEST FOR
POSTPONEMENT OF THE VOTING AT THE IMF BOARD MEETING. WE
THINK THAT THERE SHOULD BE BROAD DONOR SUPPORT FOR THE
PACKAGE AND WE WOULD RATHER THAT THE PROGRAM BE APPROVED
EARLY THAN TO STAND THE RISK OF DELAY. WE WOULD HOPE,
HOWEVER, THAT WHEN THE SUBSEQUENT WORLD BANK PROGRAM IS
CONSIDERED IN EARLY MAY THAT THE U.S. EXECUTIVE DIRECTOR
COULD PREPARE A STRONG ENDORSEMENT OF THE PROGRAM AS A
WHOLE. WE NOTE THE GRAMM AMENDMENT WOULD NOT APPLY.

17. (SBU) WE URGE THE ADMINISTRATION TO TAKE STOCK OF THE
GRAMM AMENDMENT AND LIKE STATUTES WHICH REMAIN, WITH A VIEW
TO THEIR REMOVAL. THESE LAWS AND REGULATIONS WERE ENACTED
DURING THE HEIGHT OF THE COLD WAR AND THE DEPARTMENT EARLY
ON SOUGHT TO REMOVE THESE PROHIBITIONS FROM OUR AID AND
OTHER AGENCY ACTIVITIES AS A RESULT OF NORMALIZED RELATIONS.
IN SHORT, THESE PROVISIONS NOT ONLY NO LONGER SERVE A USEFUL
PURPOSE, BUT THEY ALSO CAN SERVE AS IRRITANTS IN THE
RELATIONSHIP. WHILE LAWYERS MAY DEBATE WHETHER VIETNAM IS A
'COMMUNIST DICTATORSHIP' FOR PURPOSES OF THE STATUTE,
ECONOMISTS SEE VIETNAM AS A COUNTRY IN TRANSITION FROM A
SOCIALIST TO A MORE MARKET-ORIENTED ECONOMY.

COMMENT

18. (SBU) WE APPRECIATE THAT WASHINGTON AGENCIES HAVE NOT
HAD THE OPPORTUNITY TO REVIEW THE IMF AND WORLD BANK PAPERS
REGARDING THE PRGF AND PRSC FOR VIETNAM. NEITHER HAVE WE.
HOWEVER, FROM OUR VANTAGE POINT, THERE IS A GREAT NEED FOR A
MAJOR RESTRUCTURING EFFORT OVERSEEN BY THE IMF AND WORLD
BANK. WE HAVE COMPARED NOTES WITH THE IMF AND WORLD BANK AS
THEY HAVE NEGOTIATED THIS VERY DIFFICULT PROGRAM OVER THE
LAST FIVE YEARS, ESPECIALLY THE LAST FEW MONTHS. THEY ARE
PLEASED WITH THE RESULTS. WHILE THEY RECOGNIZE THE PROGRAM
IS THE START OF A LONG PROCESS, THEY ARE CONFIDENT THAT IT
IS ONE WHICH THE VIETNAMESE CAN ACHIEVE AND WILL BRING ABOUT
SIGNIFICANT, DEMONSTRABLE RESULTS. WE, AS WELL, ARE QUITE
EXCITED BY THE PROSPECTS FOR CHANGE WHICH THE STRUCTURAL
PROGRAM, TOGETHER WITH THE U.S.-VIETNAM BTA, CAN CREATE IN
VIETNAM, AN EMERGING ECONOMY OF 80 MILLION PEOPLE. END
COMMENT.

UNCLASSIFIED

PAGE 03 HANOI 00686 03 OF 03 231051Z

PETERSON

UNCLASSIFIED